



DEPARTMENT OF HOMELAND SECURITY

Office of Inspector General
Oakland Field Office – Audit Division
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September 11, 2003

MEMORANDUM

TO: Jeff Griffin
Regional Director
FEMA Region IX

Robert J. Lastrico

FROM: Robert J. Lastrico
Field Office Director

SUBJECT: City of Los Angeles, Department of General Services
Los Angeles, California
Public Assistance Identification Number 037-91085
FEMA Disaster Number 1008-DR-CA
Audit Report Number DO-21-03

The Office of Inspector General (OIG) audited public assistance funds awarded to the City of Los Angeles, Department of General Services, Los Angeles, California (Department). The objective of the audit was to determine whether the Department expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The Department received an award of \$4.1 million from the California Office of Emergency Services (OES), a FEMA grantee, for emergency repairs and services resulting from the Northridge earthquake in January 1994. The award provided for 90 percent FEMA funding for 10 large projects and 21 small projects.¹ The audit covered the period January 17, 1994, to March 9, 2000, and included the review of 4 large projects and 12 small projects with a total award of \$3.5 million (see attached Exhibit).

¹ Federal regulations in effect at the time of the disaster defined a large project as one costing \$42,400 or more and a small project as one costing less than \$42,400.

The OIG performed the audit under the authority of the Inspector General Act of 1978, as amended, and according to generally accepted government auditing standards. The audit included a review of FEMA's, OES' and the Department's records, a judgmental sample of project expenditures, and other auditing procedures considered necessary under the circumstances.

RESULTS OF AUDIT

The Department's claim contained \$32,062 in questionable costs (FEMA's share \$28,856). The questionable costs included \$20,734 of unsupported labor and fringe benefit costs, \$10,094 of costs covered under FEMA's statutory administrative allowance, and \$1,234 of costs not identified to the project scope. In addition, at the time of the disaster, the Department agreed to pursue recovery of funds from affected property owners, insurance companies, or third parties but did not provide the OIG evidence that such recoveries were ever pursued.

Finding A – Unsupported Labor and Fringe Benefit Costs

The Department's claim for two projects included \$20,734 in labor and fringe benefits costs that were not supported by documentation such as time and attendance records.

- For project 78217, the Department claimed \$454,353 in labor and associated fringe benefits costs. Of that amount, adequate support could not be located for \$19,794. Of the total unsupported costs, the Department erroneously claimed \$1,513 twice.
- For project 68551, the Department claimed \$59,458 in labor and associated fringe benefits costs. Of that amount, adequate support could not be located for \$940.

According to Title 44 of the Code of Federal Regulations, Section 13.20(b)(6), [44 CFR 13.20(b)(6)] applicant accounting records are required to be supported by source documentation such as payroll and time and attendance records. Because the Department did not maintain adequate records supporting claimed labor and associated fringe benefits costs, \$20,734 was questioned.

Finding B – Costs Covered Under FEMA's Statutory Administrative Allowance

The Department claimed \$10,094 in project costs that were also reimbursed under FEMA's statutory administrative allowance. According to 44 CFR 206.228(a)(2)(ii), the Department is reimbursed for the direct and indirect costs associated with requesting, obtaining, and administering public assistance based on a statutory percentage allowance. Based on direct costs claimed by the Department, FEMA paid \$51,912 in statutory administrative allowance

expenses. However, the Department also claimed \$6,671 on project 02926 and \$3,423 on project 78217 for cameras, film developing, and videocassettes to document disaster damage. Since the regulations limit these administrative costs to the statutory administrative allowance, the OIG questioned the \$10,094.

Finding C – Costs Not Identified to the Project Scope

The Department's claim for project 78217 included \$1,234 in labor charges that could not be identified to the scope of the project. The scope included shoring up damaged facilities such as libraries, police stations, and municipal buildings. Department construction crews were dispatched to clear and clean the facilities of debris and to secure hanging objects that posed health and safety hazards. Documents supporting project expenditures and costs claimed showed that \$1,234 in labor and fringe benefit costs could not be specifically identified to this project. According to 44 CFR 13.20(b), the Department is required to maintain accounting records that identify how FEMA funds are used. Because \$1,234 in costs claimed could not be identified to the scope of project 78217, the OIG questioned that amount.

OTHER MATTERS

Finding D – Potential Recovery of Funds

The Department did not pursue recovery of funds from private property owners, insurance companies, or third parties as agreed to in project documentation at the time of the disaster. The Department received \$241,796 in public assistance funds (10 projects) for the costs of renting and installing protective canopies on privately owned buildings to protect the public's safety in the event of falling debris. Each of the 10 Damage Survey Reports (DSRs) cited *Chapter IX, Article 1, Division 89, Section 91.8907 of the City of Los Angeles Building Regulations*, which allows the Department to recover costs by making a special assessment against the property. Nine of the 10 DSRs required the Department to credit FEMA with any recoveries received by the Department, and six of those nine DSRs indicated that the Department would pursue recovery of the funds from the property owners, insurance companies, or third parties. However, the Department had no documentation indicating that it ever sought to recover FEMA funds. Further, during the audit, Department officials verbally confirmed that attempts to recover the funds were never made.

According to Section 312(c) of the Stafford Act, a person receiving Federal assistance for a major disaster shall be liable to the United States to the extent that such assistance duplicates benefits available to the person for the same purpose from another source. Therefore, failure to collect FEMA funds from private property owners, insurance companies, or third parties likely resulted in the non-recovery of benefits, which would be contrary to the provisions of the Stafford Act. Because the disaster occurred in 1994, the Department did not close its

application until 2000, and FEMA, OES, and the Department failed to sufficiently follow up on this issue, it was not possible to determine what the recoveries should have been. Nonetheless, OES and the Department should be made aware that failure to materially comply with the provisions of the Stafford Act can result in disallowance of all or part of the cost of those activities not in material compliance with the regulations [see 44 CFR 13.43(a)(2)].

RECOMMENDATIONS

The OIG recommends that the Regional Director, FEMA Region IX, in coordination with OES:

1. Disallow \$32,062 of questionable costs.
2. Advise OES and the Department to pursue the recoveries required by the Stafford Act and that failure to do so can result in disallowance of all or part of the cost of those activities or actions not in material compliance with the regulations or the Act.

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

The OIG discussed the results of this audit with the Department and OES officials on August 5, 2003. Those officials generally agreed with the findings and recommendation. The OIG also notified FEMA Region IX officials of the audit results on August 19, 2003.

Please advise this office by October 14, 2003, of the actions taken to implement the recommendation in this report. Should you have any questions concerning this report, please contact me at (510) 627-7011. Key contributors to this assignment were Trudi Powell and Renee Brescia.

Schedule of Audited Projects
City of Los Angeles, Department of General Services
Los Angeles, California
Public Assistance Identification Number 037-91085
FEMA Disaster Number 1008-DR-CA

| Project Number | Amount Awarded | Questioned Costs | Finding Reference |
|-----------------------|--------------------|------------------|-------------------|
| <u>Large projects</u> | | | |
| 78217 | \$ 964,738 | \$24,451 | A, B, C |
| 68551 | 356,013 | 940 | A |
| 02926 | 1,918,486 | 6,671 | B |
| 48294 | <u>102,224</u> | <u>0</u> | |
| Subtotal | \$3,341,461 | \$32,062 | |
| <u>Small projects</u> | | | |
| 47428 | \$ 12,543 | \$ 0 | |
| 48280 | 16,758 | 0 | |
| 48281 | 4,284 | 0 | |
| 48282 | 1,934 | 0 | |
| 48284 | 2,002 | 0 | |
| 48285 | 18,244 | 0 | |
| 48286 | 11,541 | 0 | |
| 48287 | 8,316 | 0 | |
| 48288 | 39,187 | 0 | |
| 48292 | 3,249 | 0 | |
| 48295 | 37,306 | 0 | |
| 68543 | <u>22,706</u> | <u>0</u> | |
| Subtotal | \$ 178,070 | \$ 0 | |
| Totals | <u>\$3,519,531</u> | <u>\$32,062</u> | |

Legend:

- A. Unsupported Labor and Fringe Benefit Costs
- B. Costs Covered Under FEMA's Statutory Administrative Allowance
- C. Costs Not Identified to the Project Scope